

PRAGUE OUTLOOK

MARKET UPDATE Q2 2018

Office market

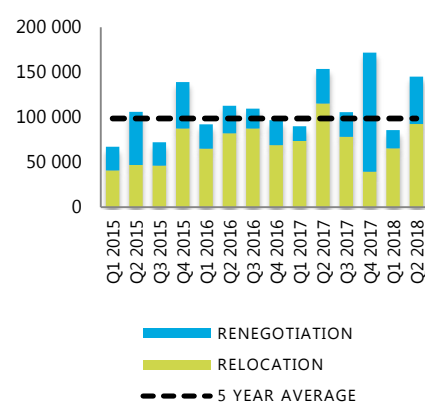
- Total demand in the second quarter of 2018 amounted to 145,200 sqm, representing an increase of 70% compared to the previous quarter and a year-on-year decrease of 6%.
- The largest volume of signed leases in Q2 was recorded in Prague 5 (25.4%), followed by Prague 4 (24.0%) and Prague 7 (14.1%).
- Renegotiations accounted for 36% of the total transactional volume in the second quarter of 2018, which is 8 % more than in the first quarter.
- The largest deal of the second quarter was the renegotiation of Siemens (23,200 sqm) in City West in Prague 5, followed by the pre-lease of WPP (16,300 sqm) in Bubenská 1 in Prague 7.
- The manufacturing sector was responsible for the largest share of the total volume of transactions in the second quarter of 2018 (23.4 %), followed by advertising and media (17.9%) and the pharmaceutical sector (9.3%).
- In the second quarter of 2018, the vacancy rate increased by 0.7% and reached 6.9%. The highest rate of vacant space was recorded in Prague 5 (11.3%), whereas the lowest vacancy rate was recorded in Prague 2 (3.5%).
- During the last three months a total number of 51,500 sqm of modern office space was delivered to the Prague market. The largest completed projects were Trimaran (18,300 sqm) in Prague 4, Dynamica (13,400 sqm) in Prague 5 and Rustonka R2 (11,400 sqm) in Prague 8.
- Total modern office stock in Prague currently stands at 3,408,900 sqm. Approximately 312,500 sqm of office space is currently under construction.
- Prime headline rents in the city centre of Prague slightly increased and varied between 21.00 and 22.00 EUR per sqm per month. Rents within the inner city stood between 15.00 – 16.50 EUR per sqm per month and rents in the outer city between 13.50 – 15.00 EUR per sqm per month.



Agent's View

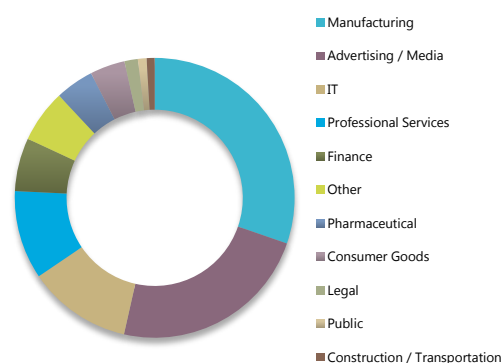
"The ongoing boom coupled with high demand keeps continual downward pressure on the vacancy rate of office buildings throughout Prague. Developers have no difficulties to find potential tenants for their projects and it is frequent that the building is leased long before completion. On the negative side the expansion of companies is hitting the limits of the Prague labour market which in some cases is unable to supply enough skilled employees. Nevertheless we still expect to see tenants to continue to expand and with it continued low vacancy rates which will create room for rental growth. We see a major trend in "co-working centres" which are opening in Prague on a large scale and it will be interesting to see if they will change the office market as in other Western metropolises," says **Ondřej Kolín**, office agency consultant at Knight Frank

FIGURE 1
Quarterly take-up in Prague [sq m]



Source: Knight Frank Research / Prague Research Forum

FIGURE 2
Take-up by sector [sq m] in Q2 2018



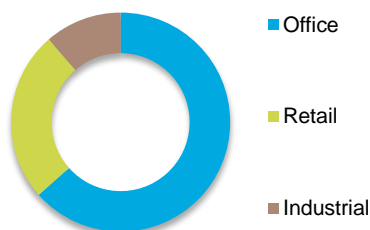
Source: Knight Frank Research / Prague Research Forum



AFI Europe commenced construction of project AFI City in Prague 9. The building will offer approx. 17,000 sqm of office space.

FIGURE 3

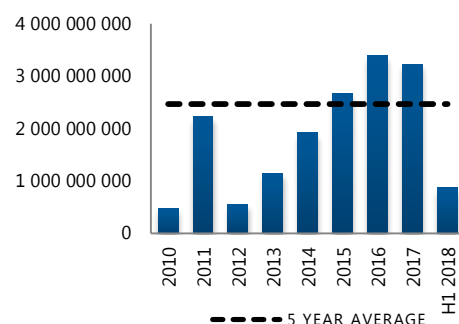
Volume of transactions by sector in Q2 2018



Source: Knight Frank Research

FIGURE 4

Total volume of transactions (2010-H1 2018)



Commentary



"The investment market is still very strong, despite the decline compared with the previous quarter and the year. We expect that the Prague office market will continue to dominate not only in total volume but also in the number of transactions. Yields in all sectors remained at the same levels compared to the previous period. Investors' appetite is still high but the limiting factor is the lack of interesting projects and high volume of sales in previous years." states **Lukáš Kalina**, Associate Director within Knight Frank Capital Markets Team.

Investment market

- Investment volumes reached EUR 559 million for the quarter as of end Q2 2018, representing an increase of 85% compared to the previous quarter and at the same time a slight decrease of 2% in the year-on-year comparison. The total volume does not include hotel and residential transactions. The most significant transactions were the sale of shopping centre Futurum in Hradec Králové and office building Metronom Business Centre in Prague.
- Overall, the largest share of the total investment volume in Q2 2018 belongs to the office sector with 64%. Besides the above mentioned sale of Metronom Business Centre, there were also the sale of Visionary, Explora, Hadovka and Crystal.
- The second largest share belongs to the retail sector, which accounted for 25% of the total investment volume of Q2 2018. One of the most significant transactions was the sale of shopping centre Všebořice in Ústí nad Labem.
- The largest transaction of the industrial sector was the sale of Mountpark in Pilsen. The industrial park was purchased from Mountpark Properties by Prologis.
- Prime industrial yields are currently sub 6.00%. Prime office yields stand at 4.75%. Retail yields for prime shopping centres at 4.75% and for the prime high street properties yields at 3.50%.

Selected investment transactions in Q2 2018

Date	Property name	Sector	Price	Size sq m
Q2	Futurum Hradec Králové	Retail	EUR 120m	28,200
Q2	Metronom Business Centre	Office	EUR 89m	33,300
Q2	Visionary	Office	EUR 68m	23,800
Q2	Hadovka Business Centre	Office	EUR 49m	24,700
Q2	Mountpark	Industrial	EUR 24m	43,700

Source: Knight Frank Research / Real Capital Analytics



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